

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-14 ISO-00 AID-05 CIAE-00  
EB-07 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 SP-02  
LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15 STR-04  
CEA-01 EURE-00 SSO-00 INRE-00 NSCE-00 USIE-00  
FEAE-00 /111 W  
-----000251 201641Z /47

O R 201603Z JUL 77  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC IMMEDIATE 6289  
TREASURY DEPT WASHDC IMMEDIATE  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY DUBLIN  
AMEMBASSY NEW DELHI  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
AMCONSUL BELFAST  
AMCONSUL EDINBURGH  
USMISSION GENEVA  
USDOC WASHDC

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USEEC ALSO FOR EMBASSY  
USOECN ALSO FOR EMBASSY  
USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD

TREASURY FOR DONALD E. SYVRUD, OASIA

E.O. 11652: N/A  
TAGS: ECON, UK  
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD JULY 14 - 20  
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SUMMARY: RETAIL PRICES ROSE 1 PERCENT IN JUNE, STANDING  
17.7 PERCENT ABOVE THEIR LEVEL OF JUNE 1976. AVERAGE  
EARNINGS ROSE 1.1 PERCENT IN MAY BUT IN CONTRAST TO THE  
PRICE MOVEMENTS STOOD 10.3 PERCENT ABOVE THEIR LEVEL OF  
12 MONTHS PREVIOUS. RETAIL SALES WERE VIRTUALLY UN-  
CHANGED IN JUNE. A 1.5 PERCENT INCREASE IN MAY'S INDUS-

TRIAL PRODUCTION IS REGARDED AS AN ERRATIC MOVEMENT. JUNE'S CURRENT ACCOUNT DEFICIT WAS 67 MILLION POUNDS. AND THE SECOND QUARTER'S 7 MILLION POUNDS. CHANCELLOR HEALEY PROPOSED TAX REDUCTIONS EVEN WITHOUT A PHASE III INCOMES POLICY. STERLING CONTINUED IN STRONG DEMAND IN THE FACE OF A WEAKENING DOLLAR. END SUMMARY.

1. RETAIL PRICES: THE ANNUAL RATE OF RETAIL PRICE INFLATION CONTINUED TO EDGE UP IN JUNE. THE INDEX OF RETAIL PRICES (JAN.15, 1974 EQUALS 100) ROSE BY 1.0 PERCENT TO 183.6 FROM ITS MAY LEVEL OF 181.7. THE INDEX HAS RISEN BY 17.7 PERCENT SINCE JUNE 1976. SINCE THE BEGINNING OF 1977, THE 12-MONTH INCREASE IN RETAIL PRICES HAS CREPT UPWARD FROM 16.6 PERCENT IN JANUARY TO ITS PRESENT LEVEL. NEVERTHELESS, THERE ARE SIGNS THAT THIS UPWARD MOVEMENT MAY EASE. IN COMING MONTHS, RETAIL PRICES WILL BE INFLUENCED BY THE RESCINDING OF THE 5 PENCE PER GALLON EXCISE TAX ON GASOLINE IN AUGUST AND THE 0.75 PERCENTAGE POINT REDUCTION IN HOME MORTGAGE RATES WHICH TOOK EFFECT ON JULY 1.

2. RETAIL SALES. RETAIL SALES VOLUME WAS VIRTUALLY UNCHANGED IN JUNE. ON A PROVISIONAL BASIS THE INDEX OF RETAIL SALES VOLUME (1971 EQUALS 100) WAS ESTIMATED AT 104.5 COMPARED WITH A FINAL MAY FIGURE OF 104.4. THE JUNE FIGURE IS 4.0 PERCENT BELOW THAT OF JUNE 1976 AND UNCLASSIFIED

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COMPLETES A SECOND QUARTER DURING WHICH RETAIL SALES VOLUME DECLINED BY A FURTHER 0.9 PERCENT FROM THE ALREADY DEPRESSED FIRST QUARTER FIGURE. DURING THE FIRST HALF OF 1977 RETAIL SALES VOLUME WAS 3.3 PERCENT BELOW THE 1976 AVERAGE. THERE IS LITTLE LIKELIHOOD OF ANY SUSTAINED RECOVERY IN RETAIL SALES VOLUME BEFORE THE FOURTH QUARTER OF 1977. BY THEN, CONSUMERS WILL HAVE BENEFITED FROM LUMP SUM TAX REBATES AND LOWER WITHHOLDING RATES.

3. INDUSTRIAL PRODUCTION. INDUSTRIAL PRODUCTION MOVED ERRATICALLY IN MAY. THE INDEX OF INDUSTRIAL PRODUCTION (1970 EQUALS 100) STOOD AT 104.2 IN MAY, A 1.5 PERCENT RISE FROM THE APRIL FIGURE OF 102.7. THE APRIL FIGURE WAS REVISED DOWNWARD FROM 103.2. THERE WERE SIMILAR REVISIONS IN THE NARROWER INDEX OF MANUFACTURING PRODUCTION WHICH ROSE 1.7 PERCENT TO 105.8 FROM A REVISED 104.0 (104.7). THE ERRATIC MOVEMENT IN THE APRIL AND MAY FIGURES WAS ATTRIBUTED TO INADEQUATE SEASONAL ADJUSTMENT FACTORS RESULTING FROM A CHANGED HOLIDAY PATTERN. THE OVERALL INDEX AND THE MANUFACTURING INDEX ARE 0.8 AND 0.6 PERCENT BELOW THEIR LEVELS OF A YEAR AGO WHEN INDUS-

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ACTION EUR-12

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EB-07 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 SP-02  
LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15 STR-04  
CEA-01 EURE-00 SSO-00 INRE-00 NSCE-00 USIE-00  
FEAE-00 /111 W

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O R 201603Z JUL 77  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC IMMEDIATE 6290  
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INFO AMEMBASSY BONN  
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TRIAL PRODUCTION REACHED ITS 1976 PEAK. OVER THE FIRST  
5 MONTHS OF 1977 THERE HAS VIRTUALLY BEEN NO CHANGE IN  
EITHER INDEX. NORTH SEA OIL OUTPUT WAS THE SOLE EXCEP-  
TION. IF THE FIGURES ARE DISAGGREGATED ON A MARKET SEC-  
TOR BASIS, A SOMEWHAT DIFFERENT PATTERN EMERGES. PRODUC-  
TION OF INVESTMENT GOODS ROSE BY ABOUT 2 PERCENT OVER  
THE THREE MONTHS TO MAY. DURING THE SAME PERIOD CONSUMER  
GOODS OUTPUT WAS UNCHANGED WHILE INTERMEDIATE GOODS PRO-  
DUCTION FELL BY NEARLY 2 PERCENT.

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4. THE CURRENT ACCOUNT FOR JUNE IS ESTIMATED TO HAVE BEEN 67 MILLION POUNDS IN DEFICIT TO GIVE A SECOND QUARTER DEFICIT OF BUT 7 MILLION POUNDS. THE VISIBLE TRADE DEFICIT WIDENED SLIGHTLY TO 287 MILLION POUNDS FROM A MAY LEVEL OF 251 MILLION POUNDS. (SEE LONDON 11617.)

5. CHANCELLOR HEALEY PROPOSED A NUMBER OF FISCAL CHANGES IN A "MINI-BUDGET" PRESENTED TO THE HOUSE OF COMMONS ON JULY 15. THE STATEMENT WAS PRESENTED AGAINST THE BACKGROUND OF THE FAILURE TO SECURE AN AGREEMENT FROM THE TRADE UNIONS FOR ANOTHER YEAR OF PAY RESTRAINT. ALTHOUGH THE MEASURES WERE PRESENTED AS MODESTLY EXPANSIONIST, THEY EFFECTIVELY HAD THE FISCAL IMPACT OF THE TAX CUTS WHICH THE CHANCELLOR OFFERED IN HIS MARCH 29 BUDGET "CONTINGENT" UPON THE CONCLUSION OF A SUCCESSFUL STAGE III OF INCOMES POLICY. THE JULY 15 CHANGES SHOULD NOT THEN ALTER THE STATUS OF THE OVERALL BUDGET SIGNIFICANTLY. (SEE LONDON 11717 AND LONDON 11591.)

6. STERLING BENEFITED THIS WEEK FROM THE DOLLAR'S WEAKNESS, ALTHOUGH FOREIGN EXCHANGE DEALERS SAY ACTIVITY HAS CENTERED ON DOLLAR/DM TRADING. THE BANK OF ENGLAND IS BELIEVED TO HAVE TAKEN IN DOLLARS DURING THE PERIOD, BUT NOT BECAUSE OF ANY PARTICULARLY GOOD NEWS ON THE U.K. DOMESTIC SCENE. IN THE FOREIGN EXCHANGE MARKET, THERE HAS BEEN RELATIVELY LITTLE REACTION TO THE DISAPPEARANCE OF PHASE III. DEALERS REPORT THAT IN COMING MONTHS, THERE WILL BE INCREASING ATTENTION PAID TO WAGE SETTLEMENTS, PUBLIC SECTOR BORROWING REQUIREMENT, AND MONEY SUPPLY. THERE IS GROWING SCEPTICISM THAT THE GOVERNMENT WILL MEET ITS MONETARY TARGETS, WHICH ARE SEEN AS THE LAST LINE OF DEFENSE AGAINST AN ACCELERATION OF INFLATION. FOR THE UNCLASSIFIED

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MOMENT, THE NEGATIVE VIEWS ARE REFLECTED IN WIDER FORWARDS RATHER THAN A LOWER SPOT, AND ARE TO SOME EXTENT SCREENED BY THE DOLLAR'S WEAKNESS AGAINST CONTINENTAL CURRENCIES.

7. THE BROADLY DEFINED MONETARY AGGREGATE, STERLING M3, GREW 1 PERCENT IN THE BANKING MONTH ENDED JUNE 15 TO 40,880 MILLION POUNDS. THIS BRINGS THE GROWTH IN STERLING M3 TO 1.6 PERCENT SINCE THE BEGINNING OF THE BANKING YEAR ON APRIL 21, WHICH IS CONSISTENT WITH THE 9-13 PERCENT TARGET GROWTH FOR THE ENTIRE YEAR. THIS GROWTH IS IN CONTRAST TO THE SEVERE MONETARY RESTRAINT EXPERIENCED IN THE FIRST QUAR-

TER OF 1977.

THE NARROWLY DEFINED MONETARY AGGREGATE, M1, INCREASED 1.9 PERCENT TO 19.6 BILLION POUNDS AFTER A MAY INCREASE OF 0.4 PERCENT. THE M1 SERIES IS REGARDED AS SOMEWHAT ERRATIC, AND IS NOT FOLLOWED AS CLOSELY AS THE M3 SERIES.

DOMESTIC CREDIT EXPANSION, WHOSE UPPER LIMIT IS 7.7 BILLION POUNDS FOR THE CURRENT FINANCIAL YEAR, ROSE 797 MILLION POUNDS IN JUNE AFTER RISING 374 MILLION POUNDS IN MAY.

8. AVERAGE EARNINGS. PRETAX AVERAGE EARNINGS ROSE IN MAY. THE INDEX OF AVERAGE EARNINGS (JAN. 1970 EQUALS 100) ROSE 1.1 PERCENT TO 286.3 FROM A REVISED APRIL LEVEL OF 283.1. THIS BRINGS THE TOTAL INCREASE IN AVERAGE EARNINGS SINCE THE AUGUST 1, 1976 BEGINNING OF THE SECOND YEAR OF INCOMES POLICY TO 8.8 PERCENT. IT IS THEREFORE POSSIBLE THAT THE PHASE TWO EARNINGS TARGET OF 10 PERCENT OR LESS CAN BE REALIZED. OVER THE LATEST 12 MONTHS PERIOD AVERAGE EARNINGS HAVE RISEN BY 10.3 PERCENT WHILE RETAIL PRICES WERE RISING BY 17.1 PERCENT. AS A RESULT, THE GAP BETWEEN MONEY WAGES AND PRICES CONTINUES TO WIDEN.

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LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15 STR-04  
CEA-01 EURE-00 SSO-00 INRE-00 NSCE-00 USIE-00  
FEAE-00 /111 W

-----000359 201641Z /47

O R 201603Z JUL 77

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 6291

TREASURY DEPT WASHDC IMMEDIATE  
 INFO AMEMBASSY BONN  
 AMEMBASSY BRUSSELS  
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9. EXCHANGE RATE AND GOLD EFFECTIVE

EXCHANGE RATE			
DATE	EXCHANGE RATE (\$)	(DEC. 1971 EQUALS 100)	GOLD (\$)
7/13	1.7206	61.0	143-3/8
7/14	1.7194	61.0	143-7/8
7/15	1.7197	61.0	144-3/8
7/18	1.7200	60.9	143-7/8
7/19	1.7201	60.8	145-5/8

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CHANGE 7/12-7/19 UP 0.000L DOWN 0.2 UP 3-3/4

10. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
7/13	0.55	1.85	3.85
7/14	0.58	1.90	3.90
7/15	0.58	1.98	4.00
7/18	0.65	2.02	4.05
7/19	0.57	1.90	4.00

CHANGE 7/12-7/19 WIDEN 0.05 WIDEN 0.17 WIDEN 0.18  
 (ALL FIGURES IN CENTS)

11. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
7/13	5-3/8	5-1/2	6-1/8
7/14	5-3/8	5-7/8	6-1/8
7/15	5-7/8	5-7/8	6-1/8
7/18	5-1/2	5-7/8	6-1/8
7/19	5-1/2	5-7/8	6-1/8

CHANGE 7/12-7/19 DOWN 1/8 UNCHANGED UNCHANGED

12. THREE-MONTH LONDONINTERBANK - EURODOLLAR INTEREST RATE

DIFFERENTIAL

DATE

7/13	2-13/32
7/14	2
7/15	2-1/32
7/18	2
7/19	2-3/32

CHANGE 7/12-7/19 WIDENED 1/16

13. STERLING CERTIFICATES OF DEPOSIT

DATE

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7/13	7-1/4	7-13/16	8/9/16
7/14	7-1/4	7-13/16	8-3/4
7/15	7-1/4	7-13/16	8-3/4
7/18	7-1/4	7-13/16	8-51/64
7/19	7-9/32	7-55/64	8-27/32

CHANGE 7/12-7/19 UP 1/16 UP 3/64 UP 9/64

14. THE MINIMUM LENDING RATE REMAINED AT 8 PERCENT AFTER FRIDAY'S TREASURY BILL AUCTION. THE AVERAGE TREASURY BILL RATE WAS ALSO UNCHANGED FROM THE PREVIOUS WEEK AT 7.4580 PERCENT. THERE WERE 679.28 MILLION POUNDS IN BIDS FOR THE 300 MILLION POUNDS IN BILLS OFFERED. THIS WEEK 400 MILLION POUNDS IN BILLS WILL BE OFFERED AS 300 MILLION POUNDS MATURE.

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## Message Attributes

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**TAGS:** ECON, UK  
**To:** STATE TRSY  
**Type:** TE  
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**Review Markings:**  
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